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December 19, 2006

**AGENDA ITEM 4**

**TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE**

- I. SUBJECT:** First Reading – Blue Shield of California's  
HMO High Performance Network Option for  
2008
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. INTRODUCTION:**

While the implementation of the Blue Shield CalPERS Provider Network in 2005 eliminated certain high cost hospitals from the network, the wide variation in physician practice patterns continues to result in significant variation in relative cost for those providers who remain in the Blue Shield CalPERS Provider Network. This variation in physician practice patterns and new capabilities for measuring and designing alternative networks, create an opportunity for Blue Shield of California (Blue Shield) and CalPERS to further differentiate providers through the use of a high performance physician network. Such a high performance physician network will continue to ensure the high quality of care in the existing provider network while providing greater transparency of cost differences and encouraging members to use cost effective providers.

**V. BACKGROUND:**

As a next generation to the Blue Shield CalPERS Provider Network, Blue Shield proposes the analysis of health care cost and utilization variations by physician groups (Individual Practice Associations and medical groups) to identify further network options that will encourage the use of cost effective providers while maintaining quality care. Physician groups influence not only what care is delivered, but where it is delivered. Creating a network that consists of those physician groups that have a demonstrated ability to render efficient, cost-effective care will provide an opportunity for substantial savings.

The goals of this high performance physician network (HPN) will include the ability to:

- generate a reduced premium when compared to the current network as an incentive to encourage the use of high performance physicians
- provide appropriate access and quality of care
- ensure the long-term viability of the CalPERS program
- be supported by current Blue Shield provider agreements, and
- have a reasonable chance of obtaining regulatory approval.

In developing its HPN proposal, options that Blue Shield will evaluate include:

- further narrowing of the current physician network,
- tiering the current physician network through benefit design efforts, and
- implementing a new, smaller-network product to be offered in addition to the current physician network.

## **VI. ANALYSIS:**

The total cost of healthcare by physician group will be considered as part of the analysis. In establishing physician selection profiles, data will be aggregated at the physician group level and will include hospital, non-hospital facility, physician, ancillary, and pharmacy costs. Both CalPERS-specific experience and Blue Shield book of business data will be used to reasonably assess cost. This data will also be adjusted to account for the underlying health risk of the populations currently receiving health care from the physician groups.

Blue Shield will also evaluate:

- Access and the potential for member disruption
- Quality of care information to ensure each physician group's quality data is appropriate prior to designating as high performance
- Potential physician networks on a county-by-county basis to identify network configurations that could lower costs.

Blue Shield's analysis is currently underway to identify the physician network configuration. Details of options along with a specific HPN proposal will be presented at the February Health Benefits Committee.

Paul Markovich, Senior Vice President, Large Group Business Unit, Blue Shield of

California will make a detailed presentation that will be distributed at the Health Benefits Committee meeting .

**VIII. STAFF RECOMMENDATION:**

This is an information item.

**XI. STRATEGIC GOAL:**

This item supports Goal X of the strategic plan which states, "Develop and administer quality, sustainable health benefits programs that are responsive to and valued by enrollees and employers."

**X. RESULTS/COSTS**

This is an information item.

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